

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BBF 1014 – FINANCIAL MANAGEMENT I
(All sections / Groups)

4 MARCH 2016
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages.
2. Answer all the 6 questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

- a) Since last year, your sister has deposited RM150,000 into an education savings plan at a fixed rate of 7 percent for her children's education funds. Your sister could earn a fixed rate of 6 percent on a similar type of savings plan today. However, the rate is fixed and cannot be adjusted. How much more your sister needs to deposit last year if she could have earned a fixed rate of 6 percent. Her children will further their study in university 15 years from today. (8 marks)
- b) On 28 February 2015, Lawson has made his mind up to purchase a dream house. He intend to apply the mortgage loan of RM680,000 from the commercial bank in Malaysia. After visiting several banks, the best mortgage rate offered to him by one of the commercial bank is 6.50 percent. The loan is to be repaid in equal monthly payments over 35 years. The first payment is due on 31 March 2015. Determine the principle balance and interest required for the first loan payment. (8 marks)
- c) Josephine has deposited RM33,000 today in an account which will earn 10 percent annually. She plans to leave the funds in this account for seven years earning interest. If the goal of this deposit is to cover a future obligation of RM68,000, will Josephine have enough money to cover her obligation? (8 marks)
- d) Last week, Jerry suffered a serious injury from a car accident. He sued the driver and was awarded a judgment of RM850,000. The driver and Jerry are attending the settlement conference today. The driver has made an initial offer of RM75,000 per year for 15 years. Determine the interest rate assumption which the driver had used in this offer. (3 marks)
- e) To pay for her university education tuition fees, Tina is saving RM2,000 at the beginning of each year for the next eight years in a bank account paying 12 percent interest. How much will Tina have in that account at the end of the 8th year? (3 marks)

[TOTAL: 30 MARKS]

QUESTION 2

- a) The Bradshaw Company's most recent dividend was RM6.75. The historical dividend payment by the company shows a constant growth rate of 5 percent per year. What is the maximum you would be willing to pay for a share of its common stock if your required rate of return is 8 percent? (5 marks)

Continued...

- b) Duncan manufacturing company just paid RM2.50 per share in common stock dividends. It expects zero growth in the next coming year. The dividend is expected to grow at 5 percent in year 2 and 3, then 15 percent growth in year 4. In year 5 and onwards, growth should be a constant 10 percent per year. Determine the value of the stock if the required rate of return is 13 percent. (10 marks)

[TOTAL: 15 MARKS]

QUESTION 3

- a) Briefly illustrate what is the real rate of interest, and what are the TWO (2) aspects that make the real rate of interest differs from the nominal rate of interest. (5 marks)
- b) A firm has issued a par value corporate bonds which has 10 years until maturity and pays quarterly interest at an annual coupon rate of 12 percent. The required return on similar-risk bonds is 20 percent. Determine the value of this corporate bond. (5 marks)

[TOTAL: 10 MARKS]

QUESTION 4

- a) Briefly illustrate what is beta coefficient, and interpret how the return of the stock is responsive to the market when the beta coefficient is equal to -1. (5 marks)
- b) Hup Seng Berhad has a beta of 1.20, the annual risk-free rate of interest is currently 10 percent, and the required return on the market portfolio is 15 percent. The firm estimates that its future dividends will continue to increase at an annual compound rate consistent with that experienced over the 2012-2015 period.

Years	Dividend
2012	RM2.80
2013	RM2.95
2014	RM3.25
2015	RM3.60

- (i) Estimate the value of Hup Seng stock. (6 marks)
- (ii) If the company's beta increases to 1.6, estimate the price of the stock in 2015. (4 marks)

[TOTAL: 15 MARKS]

Continued...

QUESTION 5

- a) Briefly explain what is *prime rate of interest*, and examine how is the prime rate of interest significant to the cost of short-term funds offered by the commercial banks. (5 marks)
- b) TNA Manufacturing purchased a new equipment for RM1,000,000 on credit. The supplier has offered a credit term of 2/10, net 45. The current interest rate the commercial bank is offering is 16 percent (assume 360 days in a year).
- (i) Compute the cost of giving up cash discount. (2 marks)
 - (ii) Should the firm take or give up the cash discount? (2 marks)
 - (iii) What is the *effective rate of interest* if the firm decides to take the cash discount by borrowing money on a discount basis? (6 marks)

[TOTAL: 15 MARKS]

QUESTION 6

- a) Briefly describe what is conservative funding strategy and how this strategy relates to the benefits, costs and risks. (6 marks)
- b) Marks Corporation uses 35 baskets each day to pack fresh fruits for shipping. It takes 5 days to receive a shipment of baskets after an order is placed and the firm would like a safety stock of 3 days in inventory. At what level of inventory should Marks Corporation's place an order for baskets? (3 marks)
- c) Hertz Chemical Corporation is measuring the performance of its cash management. On average, the firm holds inventory for 65 days, pays its suppliers in 35 days, and collects its receivables in 15 days. The firm has a current annual outlay of \$2,580,000 on operating cycle investments. The lenders currently charge the firm 10 percent for the financing cost. (Assume a 360-day year.).
- (i) Computer the firm's operating cycle. (2 marks)
 - (ii) Determine the daily expenditure and the firm's annual savings if the operating cycle is reduced by 18 days. (4 marks)

[TOTAL: 15 MARKS]

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